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SUBJECT: YOSSIE GAL AND ILAN BARUCH DISCUSS AHLC, WORLD BANK
MONITORING, AND SETTLEMENT ASSETS WITH AMBASSADOR

Classified By: Ambassador Daniel C. Kurtzer for reasons 1.4 (b) and (d)

1. (C) Summary: The Ambassador met with Yossi Gal and Ilan Baruch of the MFA's Economic Affairs division Wednesday, December 28 to discuss Israeli follow-up from the Oslo AHLC, World Bank-proposed monitoring and benchmarks, and GOI and Israeli private-sector contact with the Palestinians on settlement assets and agribusiness post-disengagement.

--On the AHLC Gal was extremely positive, noting that the chair had recognized Israel's legitimate security needs, and that all parties had been complimentary on GOI steps like proposed facilitation of PA elections.

--On benchmarks and monitoring, both Gal and Baruch took exception to the language of the World Bank proposals. They argued that it is inappropriate for the donor community to tie PA-bound aid to Israeli actions. The Ambassador responded that the donors must have a way to determine their money will be effective, and that both Israeli and PA actions are therefore relevant.

--Gal said that the GOI supports pilot projects at Karni terminal and other border crossings in principal, but has yet to formulate a position on many details.

--On the handover of settlement assets and the continuation of Israeli-Gazan agribusiness cooperation post-disengagement, Baruch said that while the GOI has a plan for transferring assets and know-how, there is "nobody to talk to" on the Palestinian side.

--The Ambassador noted that it would be difficult for the GOI and the PA to talk directly with each other on disengagement issues immediately following PA elections. A several-week period of political and symbolic "catharsis" would have to take place on both sides before dialogue could begin, he said. End summary.

Oslo AHLC: Appreciation for Israel's Efforts

2. (C) The Ambassador met with Yossi Gal, MFA deputy director general for Economic Affairs, and Ilan Baruch, chief of the Middle East economic affairs bureau, on Wednesday, December 28. Gal discussed the Oslo AHLC meeting at length, praising it as "unlike any AHLC I remember" in terms of atmosphere. All parties "behaved," he noted. In his view, the Palestinians made it clear they were impatient for more pledges and commitments from the donors right away, yet they contributed in spite of this to the overall positive atmosphere. Salam Fayyad even told the delegations that Israel is currently doing more than any other donor for PA finances, Gal said, attesting that Fayyad announced that in November and December 2004 GOI-released revenue attachments were the PA's only source of outside income.

3. (C) There was "wall to wall acceptance of the importance of disengagement" at the meeting, continued Gal. Moreover, all parties from the Norwegian chair to the World Bank acknowledged Israel's legitimate security needs, expressed appreciation for the GOI's proposed facilitation of the upcoming PA elections and support for monitoring delegations, and called on the Arab states to provide greater assistance to their Palestinian "brothers." While the Israeli delegation had misgivings over aspects of the four technical reports the bank presented, he added, they expressed their concerns only to the U.S. delegation, in an effort to keep wider discussions cordial and positive.

"Benchmarks and Monitoring" Objectionable Terminology

4. (C) Both Gal and Baruch objected to the language of the World Bank's proposal for benchmarking and monitoring of GOI steps to facilitate economic growth in the territories. Gal argued that the reports unfairly suggest donors should tie PA-bound assistance to Israeli actions. There are "dozens" of specific GOI steps prescribed in the borders and trade facilitation report, Baruch said, as opposed to a small handful of vague "suggested" PA actions. He proposed that it would make more sense to regard planned events, like Gaza pullout and the PA elections, as benchmarks in and of

themselves. Alternatively, the U.S. could apply more discrete "pressure" on the GOI to follow through with key steps, the way it did on the revenue transfer issue in 2003. On the bank's proposed pilot programs at select border crossings, Gal said the GOI supports them in principle but has yet to formulate an official position on specifics.

15. (C) The Ambassador explained that the bank's proposed benchmarks and monitoring are focused on "sequencing" of GOI-PA actions rather than conditionality, and are primarily a mechanism by which the donor community can ensure their money is not misspent. As such, he said, they cannot simply be set aside. It is crucial to donors that the PA not argue they are unable to make certain reforms or invest in private enterprise because of steps the GOI has or has not taken. "Israel will get blamed if the donors believe the GOI is impeding" Palestinian economic growth, he explained, adding that if access to Gaza for relief workers was still problematic in one month's time, it would be clear Israel was in fact the impediment on that issue.

Settlement Assets, Agribusiness: "No-one to Talk To"

16. (C) Gal and Baruch said they had tried to talk to the Palestinians at the AHLG about why the PA had so far "refused" to engage with the World Bank or Israel" on the issue of handover of settlement assets, but that the PA delegation had not seemed to take it seriously. "Give us an inventory of the settlements," they reportedly told Gal. Baruch assured the Ambassador that the GOI has a plan for the transfer of agribusiness infrastructure and know-how, including settlement greenhouses, but there is "no-one to talk to" on the Palestinian side.

17. (C) The Ambassador emphasized the importance of Israeli-Palestinian cooperation in expanding the Gazan agriculture sector. While industries like construction can flourish independently of Israel, he said, agriculture depends on a stable export regime. The two men responded that Israel would "of course" help facilitate exports of Gazan agricultural produce like flowers and strawberries, and noted that sector experts had predicted major increases in Gazan exports during 2005 "regardless of disengagement." With robust Palestinian investment, said Baruch, the agriculture sector could double in size within three years, increasing the number of Gazans it employs from some 90,000 to 180,000. (Note: Baruch added that Nabil Sharif put the number of Gazans currently employed in agriculture at closer to 60,000. End note.)

18. (C) Gazans will not be starting from scratch in terms of agribusiness, said Gal. Gazan growers own thousands of dunams of greenhouses, and Gazan laborers have worked in the settlement greenhouses since their inception -- they already have know-how. The Ambassador suggested that USAID facilitate a multilateral agriculture conference in order to link Gazans with Israeli, Egyptian, and Jordanian counterparts. Gal and Baruch agreed this would be beneficial.

GOI-PA Dialogue on Disengagement Post-Elections

19. (C) Gal and Baruch explained that the disengagement plan had been "born under a different reality", and now the GOI had to decide whether to engage directly with new Palestinian leadership or work through the U.S. as a third party in order to move forward. The Ambassador said that Israel should not expect PA elections to effect an immediate "magic change" in terms of enabling GOI-PA dialogue. A several-week period of "catharsis," in which both the GOI and the PA engaged in political and symbolic demonstrations of strength, would be in order before real bilateral work could begin on disengagement's economic aspects. "The relationship can go off track" very easily during this time, said the Ambassador -- the U.S. would have to manage it carefully.

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